

Annual Report

THE KROGER GROCERY
& BAKING COMPANY



FOR THE FISCAL YEAR 1943

Ending January 1, 1944

ANNUAL REPORT OF THE KROGER GROCERY & BAKING COMPANY

FOR THE YEAR 1943

February 11, 1944

TO THE SHAREHOLDERS:

This report is for the year 1943, beginning January 3, 1943 and ending January 1, 1944 (52 weeks).

SALES AND PROFITS

Sales for the year (52 weeks) were \$422,427,610, as compared with sales for 1942 (53 weeks) of \$388,847,338, an increase of 8.6%. Since the year 1943 contained 52 weeks whereas the previous year contained 53 weeks, a true comparison of sales indicates 10.7% increase for 1943 over 1942.

Net income (after provision for Federal taxes on income) for the year was \$5,009,228, or \$2.72 per share after preferred dividends, as compared with net income for the year 1942 of \$4,649,484, or \$2.53 per share. The provision for Federal taxes on income for the year was \$7,142,000, or \$3.89 per share as compared with \$6,777,000, or \$3.69 per share for the previous year.

The rate of gross profit on sales was less in 1943 than in 1942; however, increased sales produced increased gross profit dollars sufficient to overcome the narrower profit margin.

RENEGOTIATION OF GOVERNMENT CONTRACTS

During the year renegotiable Government contracts for 1942 were settled with a net repayment of a negligible amount to the Government, which was charged to 1943 operations. We have continued the production and sale of materials and supplies to various Government agencies, some of which may be subject to renegotiation. Provision which is believed to be adequate has been made in the accounts of the current year for any repayment which may have to be made in the renegotiation of Government contracts for the year 1943.

INVENTORIES

Merchandise inventories amounted to \$46,012,694 at the end of the year, as compared with \$41,948,687 at the end of the previous year. Much of this increase is due to the necessity for accepting shipments of merchandise during the latter part of 1943 which ordinarily would not have been received until the first quarter of 1944. Our inventories are valued on the basis of cost or market, whichever is lower, and represent sound values.

PROCUREMENT OF MERCHANDISE

The record of sales and inventories as shown in this report is evidence of the fact that our buyers were successful in the procurement of an adequate supply of merchandise during the past year. At the present time there seems to be a more abundant supply of merchandise available than at any time within the last year. How long this will continue is pure conjecture; however, we anticipate being able to secure our fair share of available merchandise in 1944.

BANK LOAN

During the year a further reduction of \$1,400,000 was made in our loan under the revolving bank credit, resulting in a balance of our loan at the end of the year of \$12,600,000. The full amount of this credit, namely \$15,000,000, is available until October 15, 1946.

EXPENDITURES FOR FIXED ASSETS AND MAINTENANCE

There has been no major expenditure for stores, warehouses, or manufacturing facilities during the year, due to lack of available materials and equipment. We have continued the policy of maintaining the equipment of the company in good repair through a systematic maintenance program.

MANUFACTURING DIVISION

While there has been no major expansion of our Manufacturing Division during the year, all units are operating virtually at capacity in the production of foods and related items. This has contributed materially to our ability to supply our stores with a substantial part of their requirements.

WAR EFFORT

Your Company continues to make contributions to the war effort through the production by its manufacturing plants of bread, meats, preserves, cookies, rations, and other items, for the Armed Forces. The laboratories of the Kroger Food Foundation continue their cooperation with the Quartermaster's Department in the conduct of numerous experiments in the production of food and in its preparation for consumption by the Armed Forces.

RESEARCH

The Kroger Food Foundation has continued its valuable work of testing merchandise sold in our stores in order to maintain the uniformly high quality of merchandise for our customers. It is constantly experimenting with new developments in the food field and closely watching the trends in food processing such as quick freezing and dehydration.

PERSONNEL

With the loss of ever-increasing numbers of our trained personnel for service with the Armed Forces and the many others who have left to enter war industries, the securing of adequate replacements is probably our most acute problem. Intensive training programs have been conducted for the development of competent help to replace these employees.

At the end of the year, 5349 Kroger employees were in the Armed Forces of our country. We are looking forward to the return of these employees and there should be no great difficulty in absorbing them in their former positions within a comparatively short period of time.

INSURANCE COMPANY

For a number of years your Company has been carrying certain of its casualty insurance as a self-insurer. Your Company has deemed it desirable to carry this insurance with an insurance company controlled by this Company and to extend the coverage beyond that possible with self-insurance. During the year \$995,500 was used to purchase the entire capital stock (except directors' qualifying shares) of the Manufacturers & Merchants Indemnity Company which had been incorporated under the insurance laws of the State of Ohio.

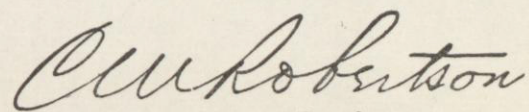
ANTI-TRUST INDICTMENT

The District Court of the United States for the District of Kansas sustained a demurrer to the indictment which was returned by a Federal Grand Jury against your Company and its officers for alleged violation of the Sherman Anti-Trust Act. The case was appealed by the Government to the United States Circuit Court of Appeals for the Tenth Circuit. The Circuit Court of Appeals, by a two-to-one decision, has just reversed the action of the lower Court. A petition for a rehearing by the Circuit Court of Appeals will be filed by our Attorneys.

OUTLOOK

Our business is not confronted with the reconversion problem of concerns engaged in war production. Readjustments will be minor. They will consist mainly of reinstating operations interrupted by the War. This should result in increased economy in distribution of food products. The ability of our organization to meet the problems of these difficult days is indicated by the financial and operating statements included in this report.

Respectfully submitted,


President

CONSOLIDATED BALANCE

ASSETS

Cash on hand and demand deposits.....		\$15,234,498
Notes and accounts receivable, less allowance for losses:		
Customers.....	\$ 2,054,146	
Employees.....	8,445	
Vendors and others.....	1,680,678	3,743,269
Inventories of merchandise, at lower of cost or market.....		46,012,694
Store and general supplies.....		852,112
Prepaid insurance, rent, taxes, etc.....		429,035
TOTAL CURRENT ASSETS		66,271,608
Stocks, bonds, mortgage notes, etc., less allowance for losses.....		114,833
Common stock of company held for sale to officers and employees (11,689 shares) (Note 1).....		305,834
Post-war refund of excess profits taxes.....		109,700
Investment in subsidiary insurance company not consolidated, at cost (Note 2).....		995,500
FIXED ASSETS:		
Land and buildings, as appraised as at January 1, 1933, with subsequent additions at cost:		
Land	1,326,766	
Buildings	\$10,339,538	
Machinery and equipment, as appraised as at January 1, 1933, with subsequent additions at cost	22,971,171	
Automotive equipment, etc., at cost.....	3,806,473	
	37,117,182	
Less, allowance for depreciation and obsolescence	22,089,287	
	15,027,895	16,354,661
Deferred charges to future operations.....		499,857
		\$84,651,993

Note 1: At January 1, 1944, certain officers and employees held options share. Options may be exercised at any time to October 2, 1944.

Note 2: The investment in Manufacturers & Merchants Indemnity Company of the State of Ohio, represents the entire capital stock of that company or was represented by cash and government bonds held by the insurance company.

TO THE BOARD OF DIRECTORS,
THE KROGER GROCERY & BAKING COMPANY,
CINCINNATI, OHIO.

We have examined the consolidated balance sheet of The Kroger Grocery & Baking Company and subsidiary (weeks) then ended, have reviewed the systems of internal control and the accounting procedures of the companies and, and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in which we considered necessary.

In our opinion, the foregoing consolidated balance sheet and related consolidated statements of income and surplus for January 1, 1944, and the consolidated results of their operations for the fiscal year then ended, in conformity with the accounting principles generally accepted in Cincinnati, Ohio,
February 8, 1944.

LIABILITIES

Accounts payable, vendors, etc.....	\$ 8,543,245
Accrued expenses, taxes, etc.....	3,708,441
Provision for Federal taxes, current and prior years, less U. S. Treasury tax savings notes (at cost and accrued interest) \$801,600.....	7,363,356
Dividends payable.....	9,784
TOTAL CURRENT LIABILITIES	<u>19,624,826</u>

Notes payable, banks; due October 15, 1946 (issued under loan agree- ment providing for payment at option of Company at any time prior thereto)	12,600,000
Reserves:	
For contingencies	\$ 2,000,000
For risks not covered by insurance policies.....	<u>512,385</u>
	2,512,385

CAPITAL

Preferred capital stock:		
First preferred, 6% par \$100, authorized and issued 507 shares, less 3 shares in treasury, 504 shares outstanding	\$50,400	
Second preferred, 7% par \$100, 460 shares author- ized and outstanding.....	<u>46,000</u>	96,400
Common capital stock without par value, authorized 3,000,000 shares, issued and outstanding 1,848,278 shares. (Note 1).....		33,977,568
Earned surplus, as annexed.....	<u>15,840,814</u>	<u>49,914,782</u>
		<u>\$84,651,993</u>

to purchase 4,700 shares of the common stock of the company at \$25 per
pany, an insurance company licensed November 29, 1943, under the laws
ber than directors' qualifying shares. At December 31, 1943, this investment
pany.

companies as at January 1, 1944, and the consolidated statements of income and surplus for the fiscal year (fifty-two
without making a detailed audit of the transactions, have examined or tested accounting records of the companies
accordance with generally accepted auditing standards applicable in the circumstances and included all procedures
plus present fairly the consolidated position of The Kroger Grocery & Baking Company and subsidiary companies at
a generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

LYBRAND, ROSS BROS. & MONTGOMERY,
Certified Public Accountants

**CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS
FOR THE FISCAL YEAR (FIFTY-TWO WEEKS) ENDED JANUARY 1, 1944**

Net sales.....			\$422,427,610
Cost of sales, including warehousing and transportation expenses, excluding depreciation.....			355,084,173
			<u>67,343,437</u>
Operating, general and administrative expenses, excluding depreciation..			53,067,805
Profit from operations before depreciation, net income of subsidiary companies and provision for Federal income taxes.....			<u>14,275,632</u>
Depreciation.....			2,038,385
			<u>12,237,247</u>
Net income of subsidiary companies after depreciation of \$33,555 and provision for Federal taxes on income of \$315,900 (including \$240,000 excess profits taxes less \$24,000 post-war refunds).....			203,540
			<u>12,440,787</u>
Interest paid, less interest and dividends received.....			289,559
Income before provision for Federal income taxes.....			<u>12,151,228</u>
Provision for Federal taxes on income (including \$5,170,000 Federal excess profits tax, less \$517,000 credit for debt retirement).....			<u>7,142,000</u>
NET INCOME.....			5,009,228
Earned surplus, January 3, 1943.....			14,511,008
			<u>19,520,236</u>
Cash dividends paid in the fiscal year ended January 1, 1944:			
First preferred \$6.00 per share.....	\$	3,024	
Second preferred \$7.00 per share.....		3,220	
Common \$2.00 per share.....		3,673,178	3,679,422
			<u>3,679,422</u>
Earned surplus, January 1, 1944.....			<u>\$15,840,814</u>

FINANCIAL AND OPERATING STATISTICS FOR THE FISCAL YEARS 1936 TO 1943, INCLUSIVE

	1936	1937	1938	1939	1940	1941	1942	1943
PROFIT AND DIVIDENDS								
Final Net Profit to Earned Surplus Dollars per Common Share...	1.91	1.62	2.05	3.02	2.51	2.71	2.53	2.72
Total Dollars	3,487,832	2,950,340	3,741,569	5,514,597	4,607,126	4,970,102	4,649,484	5,009,228
Cash Dividends Paid—Dollars per Common Share.....	1.90	1.60	1.90	2.50	2.00	2.00	2.00	2.00
STOCK								
Number Shares Common Stock Outstanding with Public—End of Year	1,821,989	1,821,989	1,821,989	1,822,734	1,831,889	1,834,589	1,836,589	1,836,589
Number Shareholders — End of Year	24,535	26,226	25,983	25,202	25,681	26,173	26,479	26,827
SALES								
Total Sales—Dollars	242,273,498	248,444,230	231,295,622	243,356,605	258,115,025	302,765,745	388,847,338	422,427,610
Average Retail Sales—Dollars per Store per Week.....	1,060	1,122	1,091	1,177	1,278	1,594	2,148	2,566
STORES								
In Operation—End of Year.....	4,212	4,108	3,992	3,958	3,727	3,477	3,174	2,999
Average Number Operated During Year	4,239	4,169	4,032	3,943	3,846	3,601	3,348	3,062
EMPLOYEES								
Number Full-Time Employees—End of Year.....	21,429	21,515	20,498	21,691	22,358	22,784	18,567	18,289
BALANCE SHEET STATISTICS								
Current Ratio	4.22	4.63	4.49	4.27	3.76	3.92	3.17	3.38
Cash								
Dollars	9,752,288	12,123,820	14,889,287	13,032,957	11,507,754	17,963,435	19,495,954	15,234,498
Ratio to Current Liabilities....	1.18	1.64	1.87	1.51	1.15	1.37	.92	.78
Inventories—Dollars	22,692,864	19,985,345	18,851,393	21,566,958	23,667,892	30,200,939	41,948,687	46,012,694
Fixed Assets—Percent of Total Assets.....	27	27	25	30	31	26	21	19
Net Working Capital — Dollars..	26,734,286	26,878,892	27,801,102	28,227,897	27,615,402	38,168,582	45,746,364	46,646,782

THE KROGER GROCERY & BAKING CO.

Executive Offices: 35 East Seventh Street
CINCINNATI, OHIO



OFFICERS

CHARLES M. ROBERTSON, *President*

JOSEPH B. HALL,
Vice-President and Treasurer

JOSEPH BAPPERT, *Vice-President*

JOHN H. SADLER,
Secretary and Ass't Treasurer

F. M. GRIEME, *Assistant Treasurer*

R. B. CONANT, *Assistant Treasurer*

T. S. BURNS, *Assistant Secretary*

J. M. MARKLEY, *Assistant Secretary*

DIRECTORS

BOLTON S. ARMSTRONG, *Cincinnati*
President, The Mabley and Carew Co.

JOSEPH BAPPERT, *Cincinnati*
Vice-President and General Manager
Retail Division, The Kroger Grocer & Baking
Company

WALTER A. DRAPER, *Cincinnati*
President, The Cincinnati Street Railway
Company

CHARLES W. DUPUIS, *Cincinnati*
President, The Central Trust Company

HARRY J. GILLIGAN, *Cincinnati*
Proprietor, John J. Gilligan & Son

JOSEPH B. HALL, *Cincinnati*
Vice-President and Treasurer,
The Kroger Grocery and Baking Company

JOHN M. HANCOCK, *New York*
Partner, Lehman Brothers

CARL M. JACOBS, *Cincinnati*
Partner, Frost & Jacobs

A. T. KEARNEY, *Chicago*
Partner, McKinsey, Kearney & Co.

CHESTER F. KROGER, *Cincinnati*
Proprietor, Clovelly Stock Farm

CHARLES M. ROBERTSON, *Cincinnati*
President,
The Kroger Grocery & Baking Company

STANLEY M. ROWE, *Cincinnati*
Vice-President and Treasurer,
The Shepard Elevator Co.

JOHN H. SADLER, *Cincinnati*
Secretary and Ass't Treasurer,
The Kroger Grocery & Baking Company



PUBLIC AUDITORS

Lybrand, Ross Bros. & Montgomery

GENERAL COUNSEL

Frost & Jacobs

TRANSFER AGENTS

The Provident Savings Bank and Trust Company, Cincinnati
Bankers Trust Company, New York

REGISTRARS

The Central Trust Company, Cincinnati
The Commercial National Bank and Trust Company of New York, New York